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SUBJECT: EMBASSY BAGHDAD SCENESETTER FOR DEPUTY SECRETARY
LEW

Classified By: Ambassador Christopher R. Hill for reasons 1.4 (b) and (d)

¶1. (SBU) Ambassador Hill welcomes your visit to U.S. Embassy Baghdad. Your visit comes as we shift to a higher gear on transition amidst the initial stages of the U.S. military drawdown. We look forward to discussing in depth the 2011-2012 planning and explaining in detail our assistance, right-sizing, and provincial team thinking. The Embassy comprises 16 agencies whose work largely falls under four bilateral committees established under our Strategic Framework Agreement (SFA) that work in the fields of economic development, infrastructure and services development, rule of law, and education and cultural cooperation.

SECURITY SITUATION

¶2. (C) The dramatic August 19 bombings in Baghdad have placed security back atop the Iraqi national agenda in recent weeks. Subsequent to those attacks, U.S. forces, law enforcement investigators and other U.S. agencies provided post-bomb investigation and medical assistance to help the GOI manage its next steps. The GOI has focused its own recent efforts on establishing more urban checkpoints, removing a series of mid-tier military commanders, and slowing plans to dismantle concrete barriers in Baghdad. In the face of ongoing security threats, the Embassy and PRTs make constant adjustments to our movement tactics. The regular use of armor-piercing roadside bombs targeting us and Iraqi security forces leaves us especially dependent on air travel when we move between cities.

POLITICAL ENVIRONMENT AND OUR WORK

¶3. (C) Recent high-profile terror attacks -- particularly the August 19 vehicle bombs that targeted government ministries in Baghdad -- hit Maliki's strong security image and led to finger-pointing among Iraqi government officials. The attacks have not, however, sparked reprisal violence. Moreover, the fundamental strength of the nascent Iraqi state -- as opposed to its image -- did not much suffer.

¶4. (U) Iraq's political leaders are already preparing for the January 2010 parliamentary elections by negotiating party coalitions. USG-funded support for the elections process will be instrumental in helping ensure a successful outcome. To support free and fair Iraqi elections in 2009 and 2010, USAID and DRL-funded programs support political party development, train and coordinate domestic election monitors and media monitors, conduct grassroots voter education, and support independent and objective media coverage of the elections.

¶5. (SBU) Overall, DRL funds 44 active grants and four interagency agreements through 22 implementing partners, totaling more than USD 274 million. This includes approximately USD 38.6 million for human rights, USD 11.9 million for women's programs, and USD 208 million for

democracy and governance. Broadly, programs assist the cooperative efforts of Iraqi citizens, civil society, and democratic institutions to reduce violence and build a sustainable, accountable, and responsive system of governance. The Iraqi parliament, for example, has made strides in the past two years as an institution due to our help with its committee structuring and legislation drafting.

Meanwhile, our human rights programs provide training and education to legal, governmental, and nongovernmental institutions to support and protect human rights and help foster national reconciliation.

REFUGEE WORK

¶6. (SBU) An important element of fostering national reconciliation is helping some of the more than 3 million Iraqi refugees and internally displaced persons (IDPs) return home. President Obama has highlighted this goal in public remarks. In FY08, PRM, OFDA, and USAID programmed USD 400 million in assistance to Iraqi refugees and displaced persons, largely through partners such as UNHCR, IOM, ICRC, WFP, WHO and NGOs. In FY09, the USG expects to program USD 380 million, including USD 100 million for IDP Iraqis as announced by Secretary Clinton during PM Maliki's July visit to Washington. There have been slow but steady refugee and IDP returns - the UNHCR estimates about 330,000 in the past 18 months. If security keeps improving over time, that number will keep growing.

POLICE AND RULE OF LAW

¶7. (SBU) The Iraqi security forces have come far but still have very far to go. Under the SFA, we have a bilateral committee that develops our cooperation in the area of the rule of law; the Ministers of Interior and Justice, and the senior Iraqi national judge, also sit on the committee. INL is essential to our work under this committee. INL supports police, corrections, and judicial programs. The current civilian police program is managed by INL with USD 400 million funding from DOD and is closely tied to the military's police training efforts. Planning has begun to transition this program fully to State by 2011. INL also funds a number of other law enforcement efforts, including eight regional legal advisors provided by DOJ and an investigative unit that includes the FBI and ATF. The INL-funded judicial program is an integrated effort focusing on helping the GOI develop a modern judicial system better able to cope with the large number of detainees. INL-funded programming also provides training for prison guards in the Justice Ministry system. Organizations like Human Rights Watch have applauded the improved treatment of prisoners in these prisons. The judicial program will largely conclude by ¶2012. In addition, an Embassy anti-corruption program coordinator oversees an array of small programs at the national and increasingly at the provincial level.

OIL AND THE ECONOMY

¶8. (SBU) Two of the SFA's four committees work on strategies for economic development and infrastructure issues and aim to help Iraq master huge economic challenges. Iraq's economy is improving, and its USD 113 billion in GDP ranks 63rd in the world, and ninth in the Middle East. Economic growth is projected to slow to 3.5 percent in 2010, however, because of constrained government spending and deteriorating infrastructure. Oil is the lifeblood of the Iraqi economy, providing 65 percent of GDP and 90 percent of annual revenues to the government. Iraqi oil production peaked at 3.5 million barrels per day in 1979, but has been battered by wars and international sanctions since then. For July 2009, oil production was 2.5 million barrels per day, including 2 million barrels in exports. (Iraq is the world's 13th largest oil producer.) Iraq's oil reserves are thought to be the third largest in the world and have huge potential.

Iraq's first oil bid round in June failed because the GOI offered unreasonably low rates of return for the international oil companies. The GOI will hold a second bid round November 30, and we have encouraged the government to offer rates of return that would compensate for the security and political risks that international oil companies face in Iraq. If the November 30 bid round is fully successful, Iraqi oil production could double (perhaps triple) over the next 10 years. The USG is supporting Iraqi oil sector development through capacity building, contracting and procurement training, and anti-corruption programs.

ECONOMIC ASSISTANCE, RECONSTRUCTION

¶9. (SBU) As noted above, Iraq has huge hydrocarbons resources that could in the longer term finance its needs but since the start of the war its needs have outstripped its available resources. Since 2003, the United States has provided USD 49 billion to rebuild and stabilize Iraq, much focused on reconstruction needs. As we move ahead in our foreign assistance programming, we aim to persuade the Iraqi government to make the political and resource commitments to the development of Iraq. Thus, over the past year, we have moved from "bricks and mortar" projects to improving Iraq's ability to govern itself effectively and democratically at every level.

¶10. (SBU) The remaining "bricks and mortar projects" fall under our Iraq Transition Assistance Office (ITAO) that was created May 8, 2007, as a follow-on organization to the Iraq Reconstruction Management Office (IRMO). ITAO oversees the remaining USD 630 million in IRMO projects. In addition, ITAO oversees USD 340 million of ongoing Provincial Reconstruction Development Council infrastructure projects, the development of new capacity development sustainment efforts, and large-scale provincial planning. ITAO is slated for drawdown by May 2010.

PROVINCIAL PRESENCE

¶11. (SBU) Sixteen Provincial Reconstruction Teams (PRTs), and seven smaller teams (ePRTs) working at the district or municipal level, focus on building Iraqi capacity to govern and provide essential services. Our teams in the field also work to build respect for the rule of law, foster reconciliation, promote participation in political and social development, and create economic opportunity. The PRTs are

fostering long-term relationships with local leaders in government and civil society, helping bring Iraq out of years of crippling isolation from the international community.

¶12. (SBU) Staffing for PRTs stands at more than 500 personnel -- a mix of FSOs and 3161 direct-hires from State, DOD, USAID, USDA, DOC, DOJ, and contractors. Most PRTs rely on the U.S. military for life support, movement, and security. As the military prepares to draw down, Embassy offices are planning for changes in the PRT footprint. By August 2010, the seven ePRTs will close, leaving 16 teams. By December 2011, we anticipate further reductions from 16 PRTs to between four and seven provincial presence sites. The remaining teams in the provinces will in some cases likely focus on resolving political disputes that still threaten national stability, such as along the Arab-Kurd fault line. In other sites, the remaining teams may serve more as platforms for diplomatic work, INL-funded police training and regional governance development projects. Keeping these remaining teams will be expensive in terms of security and life support.

RIGHTSIZING AND RESOURCES

¶13. (SBU) Management is working with NEA/SCA/EX/I and M/PRI to conduct a formal rightsizing during the next six months

aimed at 2012. It will be based on the 2012 MSP; decisions on INL, OSC, and other programs; and decisions on provincial presence. The review will take into consideration the program, administrative, and security functions that will be assumed from the U.S. military. Embassy Baghdad has undergone a number of rightsizing efforts to include the formal Kennedy review in 2007 and in internal review in May of this year.

¶14. (SBU) The Embassy was adequately funded in FY09 and expects 2010 to be no different. Cost sharing under ICASS will begin with a "virtual year" in 2010 and go live in 2011 or 2012 based on OMB decisions. (Going onto ICASS will itself drive some agencies to downsize here.) Major life support, operations and maintenance contracts must be transitioned from the Army LOGCAP to State direct contracts by mid-2011. Costs are expected to be significantly higher due to the need for contractors to provide convoy security to move food, fuel, and material. Significant upgrades of the Embassy compound have been required due to poor construction, inadequate infrastructure, and the need to house more people than originally planned.

HILL